

Investment Readiness & Startup Assessment Guidance for FRDC

Prepared by AgThentic Pty Ltd
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helping innovators build the
food system of the future

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What do investors look for?

Investors differ, but there are common themes

1. Team

- is the team credible?
- do they bring relevant experience/expertise?
- do they work well together?

2. Technology

- can the product/service be built? does it work?
- is there something unique or defensible about the technology?

3. Traction

- what evidence do we have that someone wants the product or service?
- is the market of this kind of person big enough?

It's also important to know what investors expect...

First, founders must ask themselves: do I need investment to get there?

- Raising equity = borrowing against the future value of your business
- Makes sense if you need money now to build your product or win customers, and if once you have the built product and acquired customers, you'll make a lot of money
- Doesn't make sense if you can get there on revenue, or if you don't know how you'll make money once you spend the investor's money

There are lots of other ways to get there!

- Small business grants
- Pre-sales
- Revenue
- Credit card and small loans
- Debt financing (i.e., loans)

Fundraising – the investor perspective

- Fundraising is selling a product, and that product is growth.
- The answer needs to be yes to the following:
 - If I give you \$100,000 today, can you give me back \$1 million in 5 years?
 - Can I see a pathway to this business becoming a \$100M business?

What it comes down to:

- Market size & growth prospects
 - e.g., revenue per customer
 - e.g., profitability of the business
- For software:
 - Customer Lifetime Value
 - Customer Acquisition Costs
 - Churn

VCS are just one type of investor. They want...

- An experienced, committed team
 - Attacking a large, valuable market
 - With a clear strategy to win
-
- So they can turn their investment into a 5x return
 - So they can give the profits to *their* investors (the Limited Partners)

What they don't want

- Half of the business (let alone more!)
- To tell an entrepreneur how to run the business

What VCs look for

- Big market: because the market always wins
- Strong team: proof that the team has experience/can execute the plan
 - With the right incentives – ownership in the business, commitment to the business
- Strong product: does something others don't
- Compelling vision: clear idea of where to play and how to win

How do VCs assess these characteristics?

- Each VC has a different process for generating deal flow, screening opportunities, and conducting due diligence (DD)
- It is important to note that each investor needs to develop their own criteria and process. For startups, a key part of the capital raising process is understanding the investor's decision making and evaluation processes, as well as qualifying them in (i.e., are they a "fit" for the startup's goals, round size, target market, cultural fit, etc.)
- The next two slides provide two examples of sample VC DD questions

Sample VC DD Questions (1/2)

- Do the founders have a history of professional or academic exceptionalism?
- Does the founder have the ability to communicate effectively, inspire, and marshal resources?
 - Do I believe they will attract top talent? Raise more money in subsequent rounds?
- Can the business sidestep major regulatory hurdles that would slow development (if any)?
- Can the product be #1 or #2 in its class? Why will it win? Do the founders understand this?
- Is this a cross-functional team with both technical and commercially minded founders?
- Is this business technology defensible?
- Is this attractive to a broad investor audience? Who might potential acquirers be?
- Does the opportunity offer significant margin for error to generate a 10x or more return?
- If everything goes right, how big could this be? What is the path to \$100M in revenue?

Sample VC DD Questions (2/2)

source: Forbes

Strategic Capabilities	Organizational Capabilities	People Leadership	Personal Attributes
<p>Do they –</p> <ul style="list-style-type: none">▪ Understand the industry/market/business▪ Make good strategic decisions▪ Establish the <i>vital few</i> strategic priorities▪ Demonstrate the skills, temperament, and leadership qualities required to execute the CLIENT's strategy?	<p>Do they –</p> <ul style="list-style-type: none">▪ Translate strategy into actions▪ Establish the right structures, processes, and metrics▪ Manage financial and operational performance▪ Define and shape the culture to support the strategy?	<p>Do they –</p> <ul style="list-style-type: none">▪ Hire the right people▪ Build teams that can execute▪ Delegate effectively▪ Maintain accountability▪ Mobilize the workforce to execute▪ Manage conflict▪ Develop talent?	<p>Do they –</p> <ul style="list-style-type: none">▪ Fit in a private equity environment (bottom-line focus, sense of urgency, responsive to investors, etc.)▪ Behave in ways that fit the CLIENT's culture and values▪ Manage their personal characteristics effectively?

Useful tools for
startups to articulate
what investors care
about

A canvas is a startup's best friend

Canvases are tools that help entrepreneurs organize their thoughts, test their hypothesis, and synthesize key information for stakeholders such as investors.

Investors often prioritize understanding of the customer and problem, and viability of the business model. The canvases in this section are commonly used tools to help startups articulate these key elements. All are available through creative commons licenses.

The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partners



Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS

Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities



What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

CATEGORIES

Production
Problem Solving
Infrastructure/Network

Value Propositions



What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

CHARACTERISTICS

Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

Customer Relationships



What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

EXAMPLES

Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

Customer Segments



For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platforms

Key Resources



What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

TYPES OF RESOURCES

Physical
Intellectual (brand, patents, copyrights, data)
Human
Financial

Channels



Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

CHANNEL PRICES

- Acquisition**
How do we raise awareness about our company's products and services?
- Evaluation**
How do we help customers evaluate our organization's Value Proposition?
- Purchase**
How do we allow customers to purchase specific products and services?
- Delivery**
How do we deliver a Value Proposition to customers?
- After sales**
How do we provide post-purchase customer support?

Cost Structure



What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

IS YOUR BUSINESS MORE

Cost Driven (lowest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS

Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope

Revenue Streams



For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

TYPES

Asset sale
Usage fee
Subscription/rent
Licensing/renting/leasing
Licensing
Endorsement fees

FIXED PRICES

List Price
Product feature dependent
Customer segment dependent
Volume dependent

STYMIAS PRICES

Negotiation (bargaining)
Yield Management
Real-time Market

LEAN CANVAS

VERSION:

PRODUCT

MARKET

Customer Problem	Solution	Unique Value Proposition	Unfair Advantage	Customer
	Metrics		Channels	
Cost		Revenue		

© Lean Stack

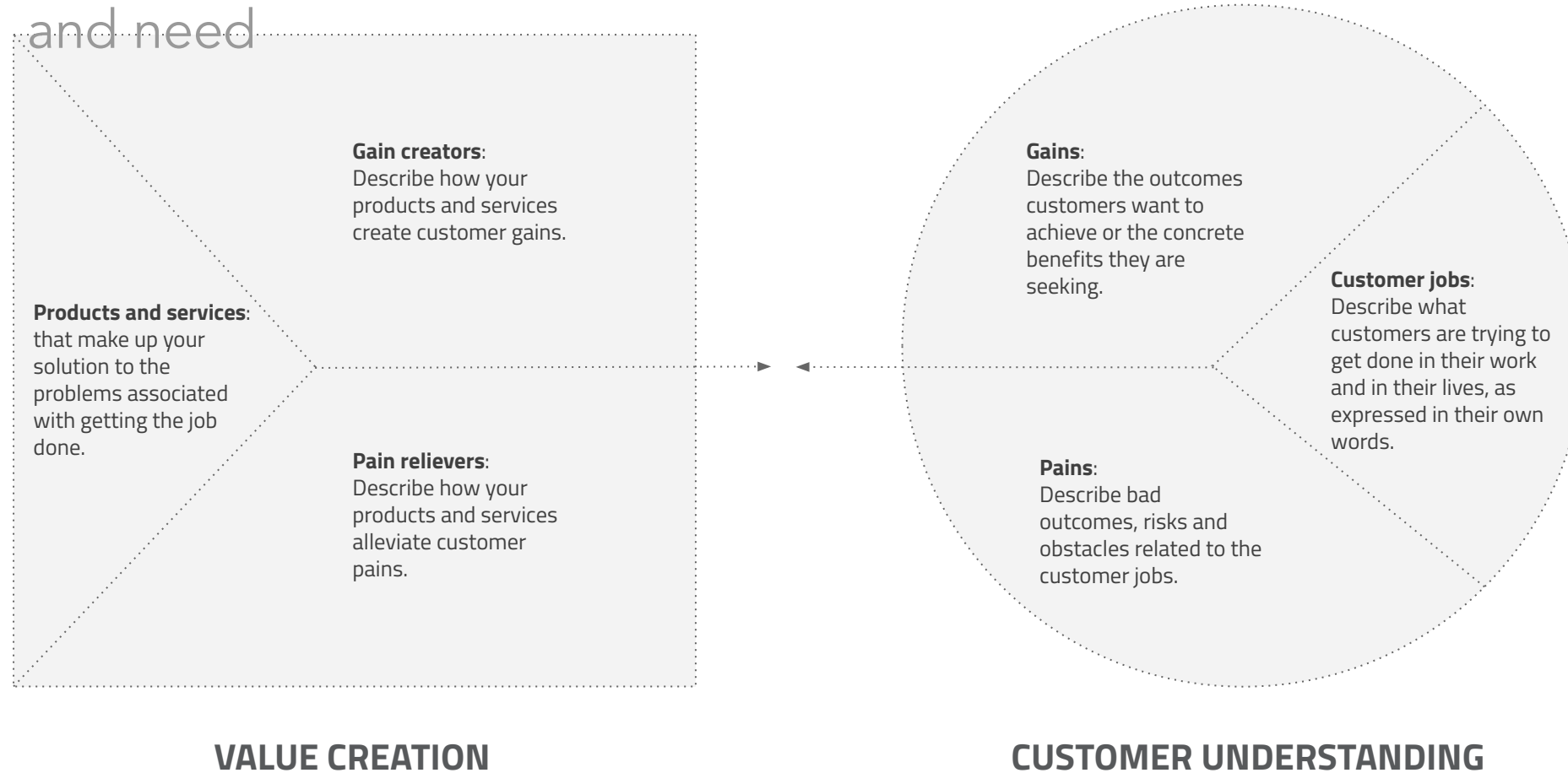
LEAN CANVAS INSTRUCTIONS

PRODUCT		MARKET		
Customer Problem <ul style="list-style-type: none"> List top 3 problems you believe your customer is experiencing Describe these assumptions as they were speaking with their own voice 	Solution <ul style="list-style-type: none"> Bullet list the things you need to make E.g. Device, website, team, a way to take money, a submission form, a database, etc. 	Unique Value Proposition <ul style="list-style-type: none"> Write a 1-sentence 'pitch' that outlines customer, problem, promise, how you do it, and how you're special E.g. AirBnB helps middle-aged holiday travellers find quality home accommodation, by matching travellers with homeowners to rent their empty spaces 	Unfair Advantage <ul style="list-style-type: none"> The one thing you have that cannot be easily copied or bought? E.g. Celebrity backing, exclusive data source 	Customer <ul style="list-style-type: none"> List the types of end customers that will benefit from your idea. Be specific. Use company names, position titles or contact names.
Today's alternatives <ul style="list-style-type: none"> What workarounds do they have / find today? What competitors are there available today? 	Metrics <ul style="list-style-type: none"> What will you measure to know if on track? E.g. Actions / Week / User 		Channels <ul style="list-style-type: none"> Where will you reach your end customers? Who are your partners to commercialise it? E.g. Corporates, CSIRO direct, research bodies 	
Cost <ul style="list-style-type: none"> Variable Costs: E.g. Marketing, cost paid per unit, utilities 		Revenue <ul style="list-style-type: none"> Direct Revenue. E.g. Price paid per customer, tiered pricing. Opt: Indirect Revenue. E.g. Grants, sell your usage data. Opt: Channel Revenue. E.g. Can a partner sell for you for a fixed price, commission, or license fee? 		

Lean Canvas is © Lean Stack

VALUE PROPOSITION INSTRUMENT

Map what you will build to what the customer will value and need



GAINS AND PAINS TIPS



Customer Pains

What does your customer find too costly?

Takes a lot of time, costs too much money, requires substantial effort...

What makes your customer feel bad?

Frustrations, annoyances, things that give them a headache...

How are current solutions underperforming for your customer?

Lack of features, performance malfunctioning...

What are the main difficulties and challenges your customer encounters?

Understanding how things work, difficulties getting things done...

What negative social consequences does your customer encounter or fear?

Loss of face, power, trust or status...

What risks does your customer fear?

Financial, social, technical risks, or what could go awfully wrong...

What's keeping your customer awake at night?

Big issues, concerns, worries

What common mistakes does your customer make?

Usage mistakes

What barriers are keeping your customer from adopting solutions?

Upfront investment, learning curve, resistance to change

Customer Gains

Which savings would make you customer happy?

Time, money and effort...

What outcomes does your customer expect and what would go beyond?

Quality level, more of something, less of something

How do current solutions delight your customer?

Specific features, performance, quality

What would make your customer's job or life easier?

Flatter learning curve, more services, lower cost of ownership...

What positive social consequences does your customer desire?

Makes them look good, increase in power, status...

What are customers looking for?

Good design, guarantees, specific or more features...

What do customers dream about?

Big achievements, big reliefs...

How does your customer measure success and failure?

Performance, cost...

What would increase the likelihood of adopting a solution?

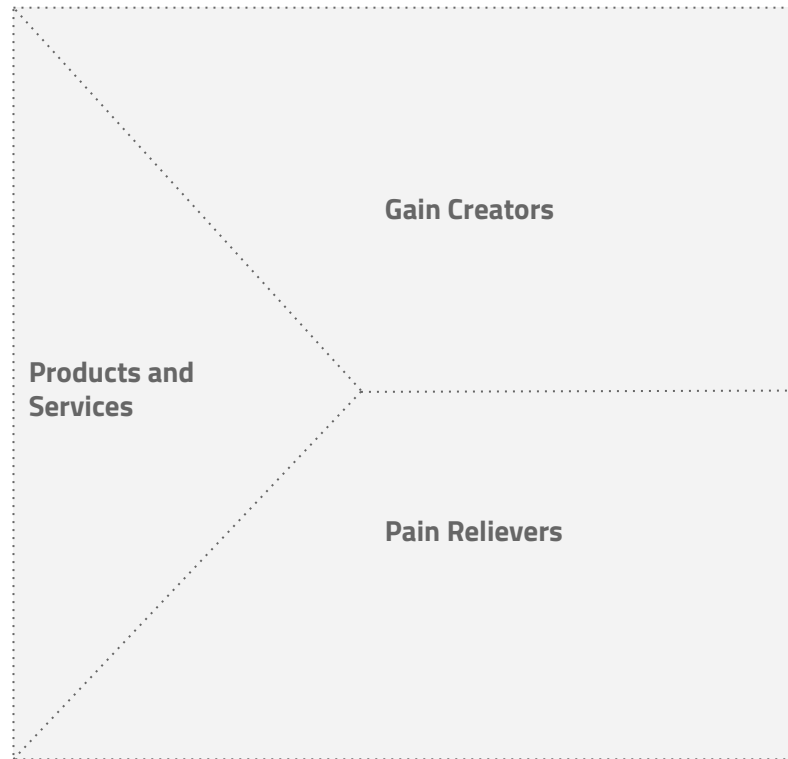
Lower cost, less investments, lower risk, better quality, performance, design...

Source: Strategyzer (www.strategyzer.com)

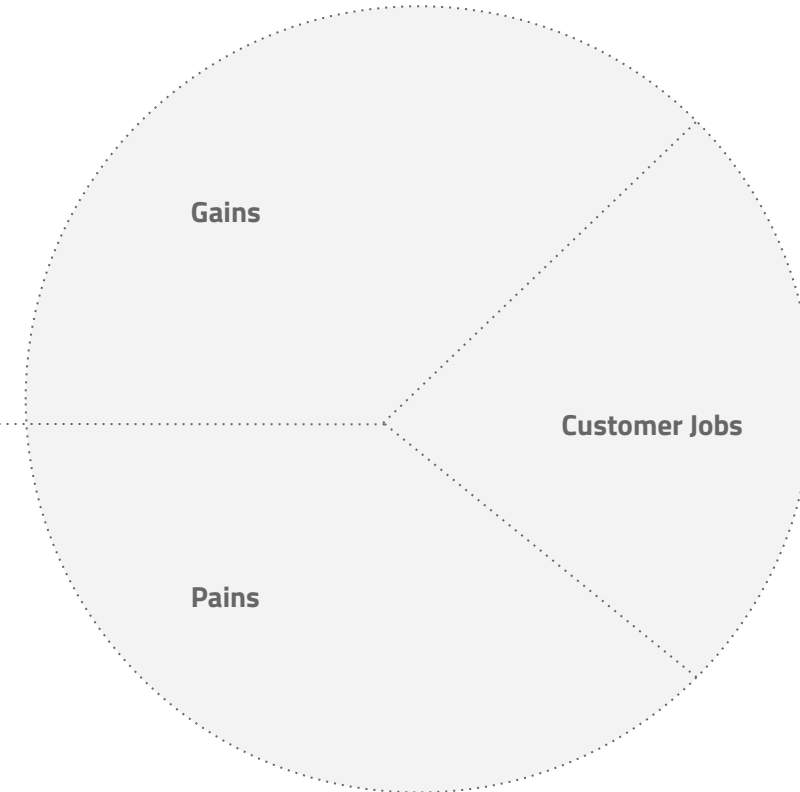
VALUE PROPOSITION

VERSION:

Map what you will build to what the customer will value and need



VALUE CREATION



CUSTOMER UNDERSTANDING

© Strategyzer

Pitch Deck Guidance for Startups

Basic elements of the standard fundraising pitch deck

- Company purpose- Define the company/business in a single declarative sentence.
- Problem- Describe the pain of the customer (or the customer's customer). - Outline how the customer addresses the issue today.
- Solution- Demonstrate your company's value proposition to make the customer's life better. - Show where your product physically sits. - Provide use cases.
- Why now- Set up the historical evolution of your category. - Define recent trends that make your solution possible.
- Market size- Identify/profile the customer you cater to. - Calculate the TAM (top down), SAM (bottoms up), and SOM.
- Competition - List competitors - List competitive advantages
- Product- Product line-up (form factor, functionality, features, architecture, intellectual property). - Development roadmap
- Business model- Revenue model - Pricing - Average account size and/or lifetime value - Sales and distribution model - Customer/pipeline list
- Team- Founders and management - Board of Directors/Board of Advisors
- Financials- rather than a P&L or cash flow model, instead describe the roadmap for the period over which you are raising. How will you spend the investors money, and what will that achieve?

DECK INSTRUCTIONS



A starter kit for pitching your business

- Slides illustrate. Tell a story in a picture. Don't use text that you will read or lots of data that people will try to understand instead of listening to you.
- What is your story? How does it flow from one image to the next?
- What phrases/imagery can you repeat as a theme?
- Could you present it to anyone and they would understand and be excited about what you do?
- Big pictures not small. Words and patterns not sentences.
- Feel free to make more slides if you need to to tell your story.

OUR BIG IDEA

VERSION:

“Gaddie Pitch”. So easy to understand, you can share it at a BBQ



You know how....

Well, what we do is

In fact

e.g. You know how... private data is used all the time by companies to build a smarter business but is this causing the risk that private customer data will create a terrible privacy breach? **Well, what we do is...** clean enormous datasets so that customers cannot be re-identified. **In fact...** we have proven that our technology works with Australia's largest bank.

Pollenizer Global Pty Ltd | Inspired by Anthony Gaddie

#TIPS

Pitch language



Passive (avoid)

Awesome



We are planning to...

Next month we are...



We hope to...

We are in the process of...



We think that...

We know that...

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Our aim is to...

We will be...

We are considering...

We are investigating...

We have had interest from <industry>.

We have had interest from <company>

Customer interviews have validated that...

We have tested <this> with potential customers and have <this traction>

THEME / ORIENTATION

An intriguing hook or detail



 Short sentence, word pattern, image. All needs to be consumed in 1 second.



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Option #1

Option #2

INVESTOR'S MIND

What might they be thinking?
What is distracting them instead
of listening to you? What do they
want to know?

You can delete these bubbles.

INTRODUCE YOURSELF

Startup name and your catchy introduction...



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Name

Value proposition

INVESTOR'S MIND

Interesting name and value proposition... but what is it...?
I'm interested but sceptical.
Tell me more.

BTW, give me a moment for
your UVP to sink in before you
woosh me to the next slide.

THE PROBLEM WE ARE SOLVING

A story that sizes the scale and impact



 You may need a couple of slides...



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Perspective #1

Perspective #2

INVESTOR'S MIND

I can see that there is a problem here even though it is not in my field. But that is a massive problem to solve and I am sceptical that you can.

WHAT IF IT COULD BE SOLVED?



With us it can like this!

 You may need a couple of slides... can you show me? Help me picture it.



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Result #1

Result #2

INVESTOR'S MIND

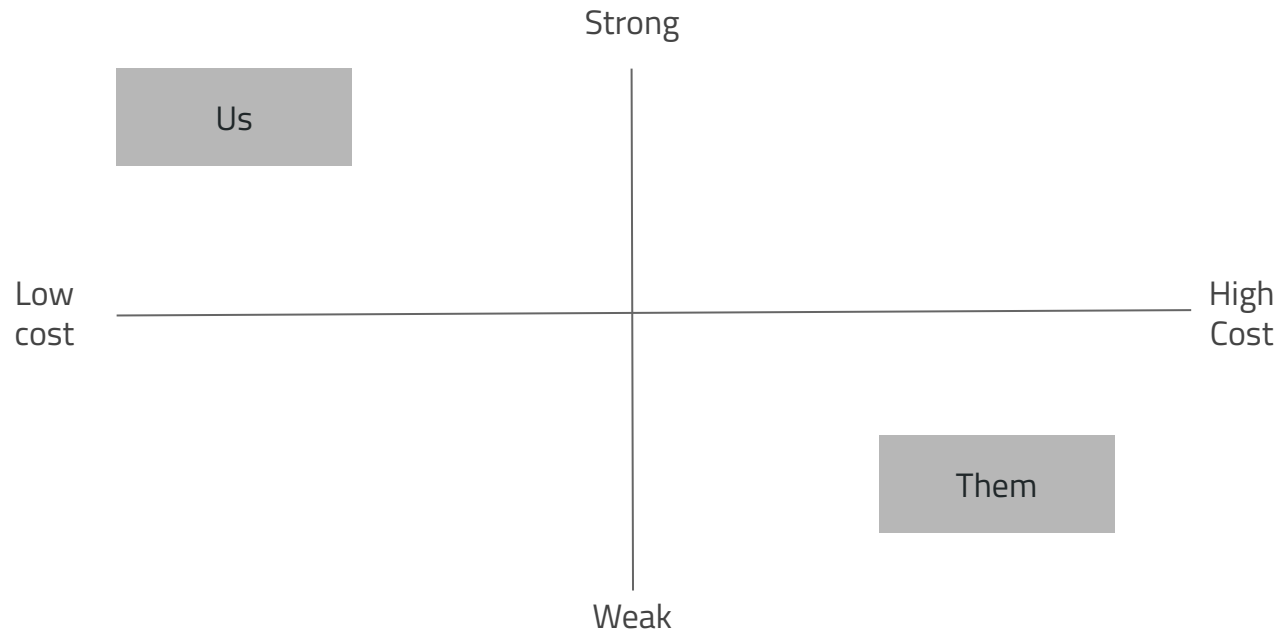
Click... boom... amazing...
wow. Surely others are doing
it? If not, why not? If they are,
how are you unique?

HERE'S THE COMPETITION

Can you see how unique we are? Find a single visual.



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INVESTOR'S MIND

I can see how these are the important factors that customers think about when choosing a supplier and how you guys standout...

Sounds great but how do you make money out of this?

WHY US?

Here's our extraordinary team



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Picture of team. Why are you the best people in the world to deliver this?

Team member #1
Why you?

Team member #2
Why you?

Team member #3
Why you?

Team member #4
Why you?

INVESTOR'S MIND

I need to know that you have the experience to figure this business out and that you are obsessed with making it happen.
Passionate. Unstoppable.

Sounds like you are... but where's the proof...?

STATUS

We are unstoppable. We do the right things in the right order.



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DONE

DOING

NEXT

INVESTOR'S MIND

You will deploy resources well to increase value and decrease risk. I'd better get on the train because you will go ahead whether I am on it or not.



Short timeframe

THE ASK

Here's the transaction



What's in it for both sides? When?



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Option #1 and timeframe

Option #2 and timeframe

INVESTOR'S MIND

I can see how I can get involved.

Other pitch deck resources

- <https://medium.com/the-mission/the-greatest-sales-deck-ive-ever-seen-4f4ef3391ba0>
- <https://piktochart.com/blog/startup-pitch-decks-what-you-can-learn/>
- <https://www.forbes.com/sites/alejandrocremades/2018/07/03/best-pitch-decks-the-early-stage-pitch-decks-of-the-hottest-funded-startups/#7392834c1915>